



Biweekly Narrative Seafood Report (No: 11-2001):Korea

Prepared by Alaska State Trade Representative for Korea

August 23, 2001

1. Korean Economy Update

Optimism grows as Korea's economy shows signs of recovery

Until early last year, the Korean economy, which had managed to maintain a healthy rate of growth, looked like one of the few bright spots in a gloomy world economic outlook.

In 1999 and 2000, economic growth was at 12 percent and 9.8 percent, respectively, far superior to the drastically falling Asian economies. Growth, however, has slowed sharply from late last year, largely affected by lackluster demand for information technology products, one of the main items driving economic growth for the last three years.

As for the world economy, its two main locomotives have lost steam. The U.S. economy shows little signs of recovery, while the Japanese economy is still in a dire situation and facing political strife.

With no clear signs that the economy will get back to normal any time soon, economic growth forecasts have been successively downgraded. The Korean government has already revised the official growth domestic product target to 4-5 percent from 5-6 percent. Compared with year-on-year estimates of economic growth of 3.8 percent by the Bank of Korea and 3.5 percent by the International Monetary Fund, the government's estimate seems overly optimistic.

In sharp contrast to the falling real economy, Korea's business and consumer confidence has remained relatively resilient this year, although in July readings declined in the face of the prolonged economic slump.

In short, a gloomy macro-economy and some bright microeconomics characterize the Korean economy in the first half of the year.

The Korean government's scenario is that the demand for IT products - chiefly semiconductor chips and electronic goods - could start to recover in the fourth quarter, underpinned by the much-touted recovery in the U.S. economy.

Is a turning point for the Korean economy at hand? Yes, but the time schedule may be delayed longer than expected.

Falling real economy

Exports, which comprise two-thirds of the Korean economy, dove an unprecedented 20 percent year-on-year to \$11.5 billion in July, marking the fifth consecutive monthly contraction.

The 20 percent decline was the biggest monthly retreat since 1967 when the government began compiling trade data. Consequently, exports in the first seven months of this year contracted 7.1 percent year-on-year to \$90.2 billion.

As widely perceived, the slump in the IT sector was the main reason behind the biggest drop in exports. More specifically, the downturn in the chip-manufacturing sector hurt the Korean economy.

Total semiconductor exports for the first half of the year should reach \$8.69 billion, a 27 percent drop from a year ago, according to reports from the Ministry of Commerce, Industry and Energy (MOCIE).

In particular, exports of D-RAM, which make up about 40 percent of the total, fell 26 percent in the first five months of the year, compared to the same period a year ago.

This sharp drop is attributed to the slowdown in the U.S. economy and falling demand in the IT sector, which has pulled down the price of D-RAM chips by 80 percent from the first part of last year.

The large 31.8 percent hike in semiconductor exports in the first six months of last year also contributed to the seemingly drastic decline this year, the ministry said.

On the other hand, July's industrial output figure also highlighted the dark side of the falling Korean economy, raising concerns that Korea may enter another turbulent period in the second half of the year.

A drastic fall in industrial output apparently resulted from sluggish exports. Industrial output dipped 2.7 percent in June from a year earlier, the first fall since the height of the region-wide economic crisis in October 1998.

As economic downturn continued to not only raise inventory levels, but also squeeze earnings from firms, businesses cut back on investment in new plants and equipment for eight months in a row.

Resilient spending and upbeat sentiments

There is a paradox in the Korean economy, which leaves economists confused. In contrast to what happens in real economic activities, the sentiment of businessmen and consumers remained relatively healthy.

The consumer sentiment index (CSI), an indicator for how consumers feel about prospects for the economy over the following six months, stood at 100.3 in June, up from 99.5 the month before. The index, which has seen consecutive rises since last December, has not exceeded 100 since August last year.

Of note was that the CSI for the economic situation over the next six months posted 103.1, even higher than 102.8 in August last year.

Seemingly proving this upbeat consumer sentiment, domestic consumption remained resilient in June, largely due to a surge in new mobile phone sales and increased production of automobiles. The retail and wholesale sector in June also grew 4.1 percent on year, though its growth rate declined, compared with figures the previous month.

Continued signs of domestic demand recovery can be viewed as one of the bright spots as well. Wholesale and retail sales, which declined 0.2 percent month-on-month in June after a 2.9 percent surge in May, look quite healthy and may indicate that an underlying recovery trend is in progress.

On the business front, sentiment also continued to rise, though business prospects for this month deteriorated.

The Business survey index (BSI) conducted by the Federation of Korean Industries (FKI) fell to a six-month low of 90.2, a dramatic departure from the figure that stayed above 100 in the period from February to July.

Market observers said that businessmen began to bear the brunt of the economic downturn, although the full effects are yet to be felt.

Economy nearing the bottom

Though July's economic figures offered a gloomy outlook for the Korean economy, economists see them as a sign that the economy is nearing the lowest point.

When July's figures are examined, industrial output actually increased 2.3 percent - if we separately calculate the semiconductor sector, whose output plunged 16.1 percent year-on-year.

Industrial production data for June, while highlighting the well-known contrast between plunging industrial output and resilient wholesale and retail sales, offered some favorable signs for the Korean economy, economists said.

Decent shipment decline resulted in a sharp fall in the inventory to shipment ratio, a leading indicator of a rebound in production.

What is more promising was that such a sharp drop was entirely led by the information technology sector, whose inventory to shipment ratio fell from 84.8 percent to 73.6 percent in just one month.

Though the current performance of the IT sector still looks quite bad, there is some hope that the end of the tunnel is approaching.

Further evidence that the Korean economy is approaching the bottom is the recovery in the non-semiconductor sector. Non-semiconductor IT manufacturing showed a significant rebound in June, with 12 percent month-on-month growth.

It is too early to say whether there is a trend reversal in this sector from just one month of resurgence, but such a resilient performance in the non-semiconductor IT sector may be a sign of the bottoming in the entire IT sector.

A decent jump in June in year-on-year facility investment also pointed to positive year-on-year growth near the end of the year. In the first quarter of the year, facility investment fell 7.9 percent from the same period last year, and dropped 4.7 percent in the second half of the year.

Hurdles ahead for economic revival

The pressing issue for the economy is that it is still unclear when the U.S. economy, which absorbs around a half of Korea's exports, will turn around and subsequently haul the Korean economy out of the doldrums.

The U.S. economy grew just 0.7 percent in the second quarter of the year, following a 1.2 percent expansion in the first quarter, proving that the world's main engine nearly stopped working.

Market consensus as a whole has been that the U.S. economy will turn around in the fourth quarter of the year, but as the economy is going from bad to worse, a number of economists are scurrying to revise their forecasts - the much-awaited upturn may come later than expected, possibly next year.

Though optimists say recent economic data points to economic resurgence in the near future, the timetable, some are concerned, may be revised.

Furthermore, most economists point out that the upbeat sentiment, along with healthy private spending, cannot be sustained if the real economy continues to remain deeply depressed.

Domestically, a reform drive, which is currently criticized for losing steam, should be accelerated as part of measures to clear off any uncertainties hanging over the economy.

A snapshot of a recent survey conducted by Samsung Economic Research Institute has shown that the delayed restructuring is a major hurdle curbing economic revival.

Around 43 percent of 507 listed firms surveyed replied that stabilizing the financial market through the completion of corporate restructuring would be crucial to prompting firms to expand their investment into facilities down the road.

Such stopgap measures as increasing payment guarantees on corporate credit and fast corporate bond refinancing plans would not tackle the root of the problem, the respondents said.

The IMF recently said there are significant risks for the Korean economy. The downturn in the global electronics cycle, along with weak sentiment over the slow pace of corporate restructuring, may further hurt the economy's prospects, it warned.

(Source: August 15, 2001, the Korea Herald, Seoul, Korea)

2. Fishery Imports Exceed Exports

Korea is expected to post a deficit of \$150-\$200 million in external trade of marine products this year. This is the first time since 1998 that there was a fisheries trade deficit.

Korea's exports of fishery products exceeded imports by \$781 million dollars in 1998, but the surplus fell to \$341 million in 1999 and \$93 million last year.

The nation's imports of marine products exceeded exports by \$124 million from January through to June this year.

A drastic rise in the consumption of fish and seafood was responsible for the red-ink figure. Many Koreans switched to seafood from beef and other meats following outbreaks of mad-cow disease and foot-and-mouth disease.

Imports of fishing products, \$587 million in 1998, more than doubled to \$1.78 billion in 1999. Last year, imports soared by 19.6 percent to \$1.415 billion.

Imports from China increased by the largest margin, posting \$366 million in the January-June period, up 21.3 percent from a year earlier.

“Exports to Japan in the first half contracted by 15 percent year-on-year, reaching \$481 million,” said the MOMAF official.

(Source: August 20, the Korea Times, Seoul, Korea)

3. Korea's Wholesale Fisheries Market Update

a) Noryangjin Wholesale Fisheries Market (August 8 - 14, 2001)

- Fresh squid and cod from the local East Sea played a leading role in market buying.

- Fresh Squid: Supply Volume – 36,000 – 48,000 kg per day

Price - W 9,700 per 6-kg- box for medium, W 600 per box up from the previous week

- Fresh Cod: Supply Volume - 1,000 kg per day
Price - W 12,000 per kg for medium. Since this is not a high season for cod, prices for small was much cheaper
- Live small halibut (wild) for sashimi: Price - W 40,000 per kg for medium
- Live small halibut (farmed) for sashimi: Price - W 13,000 per kg for medium (The price remained stable or slightly less than in the previous week)

b) Garak-Dong Wholesale Fisheries Market (August 7 – 13, 2001)

The prices for most species went up due to poor supply, especially shell fish and and dried fish.

- Fresh mackerel (local Cheju Island):
Price - W 27,500 per 10-kg-box for medium, a slight decrease from the previous week due to increase in supply by good catch
- Frozen mackerel (local):
Price - W 35,000 per 10-kg-box for medium, same as or a slight increase from the previous week.
- Fresh hairtail (local):
The prices varied by size- W18,000 ~ 30,000 per 3 kg-box

(Source: August 20, the Korea Fisheries Times)